

9. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS SET OUT BELOW ALONG WITH OTHER INFORMATION CONTAINED IN THIS PROSPECTUS BEFORE YOU MAKE YOUR INVESTMENT DECISION.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 Our business operations and financial condition are dependent on CUCKOO Holdings Group

Pursuant to the CKH Distribution Agreement, we have been granted by CKH, (i) the sole and exclusive rights to distribute the CUCKOO-branded products; and (ii) (as authorised by CUCKOO Holdings), the license to use the “CUCKOO” trademarks in Malaysia, Singapore and Brunei (see Section 7.21 of this Prospectus for further details on the CKH Distribution Agreement). While the CKH Distribution Agreement does not have an expiry term, it may be terminated if (i) either CKH or us materially breaches the CKH Distribution Agreement, and negotiations between us and CKH and any remedial efforts undertaken to remedy such material breach are unsuccessful; (ii) either CKH or us ceases to function as a going concern; or (iii) a majority of our voting shares is compulsorily acquired or our operations have been taken over or affected by events beyond the control of CKH or ourselves such as war, revolution, coup d’etat, riot, civil unrest or change of political ideology of Malaysia. If the CKH Distribution Agreement is terminated, or if CUCKOO Holdings revokes the right for CKH to grant us the licence to use the “CUCKOO” trademarks, CKH will no longer be required to supply us with CUCKOO-branded products and we will be required to eventually cease the use of the “CUCKOO” trademarks in Malaysia, Singapore and Brunei after a period of 36 months from the effective date of termination of the CKH Distribution Agreement. In addition, a material reduction in the equity interest of CUCKOO Holdings Group in our Company may have an adverse impact on our business relationship with it.

Given that for the FYE2021, FYE2022, and FYE2023:

- (i) our purchases of CUCKOO-branded products from CUCKOO Holdings Group constituted 90.8%, 76.8%, and 73.5% of our Group’s total purchases; and
- (ii) revenue from our CUCKOO-branded and CUCKOO Co-Created segments, where we rely on the license to use the “CUCKOO” trademarks, contributed to 98.7%, 98.8%, and 99.2% of our Group’s total revenue,

in the event that the CKH Distribution Agreement is suspended or terminated, or if our business relationship with CUCKOO Holdings Group is adversely affected as a result of a material reduction in its equity interest in our Company, our business operations and financial condition may be materially and adversely affected.

9.1.2 Any disruption in the supply of our CUCKOO-branded and CUCKOO Co-Created products from our business partners or other suppliers may have an adverse impact on our business operations and financial condition

As we do not have direct control over the production of our CUCKOO-branded and CUCKOO Co-Created products, we face supply risks from CUCKOO Holdings Group and our business partners, namely OGAWA Malaysia, Fujiaire, and LSK. Supply risks include our suppliers experiencing a reduced production capacity, failure to meet production deadlines, failure to meet our product quality standards as well as shipping and port disruptions. If these suppliers fail to produce or deliver sufficient products of acceptable quality to meet our needs in a timely manner, it may adversely affect our business.

Further, we would not be able to find alternative providers for our CUCKOO-branded products if CUCKOO Holdings Group is no longer able to meet our product needs at acceptable costs and in a timely manner. It is also unlikely that we would be able to continue to rely on the license to use the “CUCKOO” trademarks even if alternative providers are identified.

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For some of our CUCKOO Co-Created products, it may take a significant amount of time to identify and qualify a new supplier, or in the case of our CUCKOO Co-Created products, a suitable new business partner, that has the capability and resources to produce our products in accordance to our specifications and our service as well as quality control standards, in the requisite volume.

Failure to take adequate steps to mitigate the likelihood or manage the potential impact of such events, particularly when a product or service is provided by a single source, could materially and adversely affect our business operations and financial condition.

9.1.3 We require significant upfront capital and sustainable cashflow for us to offer our customers rental plans for our products

Our business model mainly involves offering rental plans for our products to our customers, which requires us to have significant upfront capital to fund the purchase of products from our suppliers and pay sales commissions. Further, our operating cash inflows are dependent on our collection of rental payments from our customers over their contract terms. As such, if capital resources are not available to us on a timely basis or a significant number of our customers fail to settle their payments in a timely manner or at all, our business operations and financial condition may be materially and adversely affected.

For the Financial Years Under Review, we have used a substantial amount of our cashflows to repay CUCKOO Holdings Group, which had limited our cashflows and hence, our revenue growth. For the FYE2021, FYE2022 and FYE2023:

- (i) we paid RM614.7 million, RM255.3 million and RM287.2 million to the CUCKOO Holdings Group respectively; and
- (ii) the amounts which remained outstanding to the CUCKOO Holdings Group were RM190.6 million, RM219.4 million, and RM187.4 million respectively.

Previously, we were granted a repayment period of 24 months from the date of invoice to make payments to CKH, which reduced our need to seek sources of capital. However, after 1 July 2024, pursuant to the CKH Distributorship Agreement, we are required to make all payments to CKH and/or pay all invoices from CKH within 90 days from the date of the invoice or the on-board date as stated in the bill of lading, whichever is later and where applicable. In addition, as at 31 August 2024, we have settled all outstanding trade payables owing to the CUCKOO Holdings Group that were outstanding for more than 90 days. We have paid CUCKOO Holdings Group a total of RM355.6 million for the period 1 January 2024 to 31 August 2024. If our internally generated funds are insufficient, such repayment, together with the shortening of the repayment term by CUCKOO Holdings Group, is expected to result in our cashflows from operating activities being negative for future financial periods.

9.1.4 We may not be able to secure other sources of financing to fund our product purchases to offer rental plans to our customers

We require significant capital outlay for the upfront purchase of products, which are offered over a longer rental tenure under our rental plans, resulting in a net negative operating cashflow position. For the FYE2021, FYE2022, and FYE2023, our purchases of products amounted to RM306.3 million, RM243.9 million, and RM248.0 million respectively.

Previously, we have relied on longer repayment period to CKH which reduced our need to seek sources of capital (see Section 9.1.3 of this Prospectus for further details). Moving forward, to fund the purchase of new products and the repayment of our existing trade liabilities, we will need to rely on third party financing rather than incurring higher amounts owing to our suppliers. As at 31 December 2023, our outstanding interest-bearing bank loans amounted to RM59.9 million.

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As at the LPD, we have not faced any issues with securing other sources of financing which had materially and adversely affected our business operations and financial condition. However, there is no assurance that we will be able to obtain additional capital in a timely manner or on acceptable terms in the future, if at all. The failure to obtain sufficient financing on commercially reasonable terms could delay our ability to pursue our business plans, which could adversely affect our business operations and financial condition. Future debt financing could also include terms that restrict our financial flexibility or restrict our ability to pay dividends.

9.1.5 We are subject to payment-related risks arising from defaults or late payments by our customers

We offer a variety of rental plans to our customers, under which they make monthly rental payments over a period for the use of our products. As at the LPD, more than 80% of our customers subscribe to our rental plans. For the FYE2021, FYE2022 and FYE2023, income from our rental plans amounted to RM675.9 million, RM545.9 million, and RM630.1 million, respectively, representing 59.3%, 52.1%, and 56.4%, of our total revenue, respectively.

As at the LPD, there has not been defaults or late payments by our customers which had materially and adversely affected our business operations and financial condition. However, if the creditworthiness of our customers deteriorates, or if a significant number of our customers fail to settle their payments in a timely manner for any reason, including but not limited to, an inability or unwillingness to make payments, particularly in the event of an economic downturn, we may incur impairment losses and our business operations and financial condition could be adversely affected. There is no assurance that we will be able to fully recover payments from our customers, or that they will make payments to us in a timely manner. Any occurrence of defaults or delays in payments by our customers may adversely affect our business operations and financial condition.

If we repossess a customer's product due to payment defaults, such repossessed products (if assessed by us to be in working condition) may be used during our product demonstration workshops and may also be loaned to other customers as substitute products, when such customers send in their products for repairs. As a result, we may not be able to recover costs incurred with respect to such repossessed products.

9.1.6 Our business depends on our ability to protect and enhance our brand image

We believe that our reputation is critical to our continued ability to attract customers and maintain relationships with our business partners. For the FYE2021, FYE2022 and FYE2023, the revenue from sales of our CUCKOO-branded products accounted for 95.8%, 89.7%, and 85.4% of our total revenue, respectively. We have entered into partnerships with our business partners to develop and manufacture our CUCKOO Co-Created products. These products also bear the "CUCKOO" name. Our continued success and growth therefore depend significantly on our ability to protect and promote our brand, in our existing markets and new markets we intend to enter (see Section 9.1.11 of this Prospectus for further details on risks related to our business strategies). Negative commentary regarding us, CUCKOO Holdings Group, our business partners, our products and services, our employees or other third parties who are affiliated with us and our brand may be adverse to our reputation or business. For example, in 2016, there were unsubstantiated allegations that the filter used in one of our air purifiers contained harmful substances, and we also received negative feedback that the statements made in the advertisements relating to these air purifiers were untrue. To manage the CUCKOO brand reputation, CKH released an official statement in response to such allegations, which was uploaded to our corporate website in Malaysia and we replaced the relevant filters to address customer concerns.

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Brand ambassadors with whom we maintain relationships could engage in behaviour or use their platforms to communicate directly with our customers in a manner that reflects poorly on our brands. Their actions may be attributed to us or otherwise adversely affect us. It is not possible to prevent such behaviour, and the precautions we take to detect this activity may not be effective in all cases. Any event which negatively impacts our brands and/or reputation may deter customers from purchasing our products and/or services as well as discourage our business partners from conducting business with us.

Product safety or quality failures, whether actual or perceived, including defects, product mislabelling, contamination, and products being deemed unsuitable for use could tarnish the image of our brands and could cause customers to purchase products from other retailers. As such, we have endeavoured to select business partners with a good track record, who can provide safe, high-quality products and services at acceptable costs. However, there is no assurance that our business partners will not face any product safety or quality failures in the CUCKOO Co-Created products that they manufacture.

Safety or other defects in our competitors' products may also reduce customer demand for our own products if customers view them to be similar or view the defects as symptomatic of the product category. While we maintain product liability insurance and general liability insurance to cover financial loss we may sustain as a result of product liability claims for our home appliances, WonderLab and WonderDewi products, and WonderKlean services, a product liability claim against us (or against CUCKOO Holdings Group, in respect of our CUCKOO-branded products), regardless of whether the claim is with merit, could negatively impact our brand image, and could be in excess of our available insurance coverage and established reserves, result in legal costs incurred in connection with such claim or other adverse allegations and costs in rectifying any product defects, any of which could have an adverse effect on our business operations and financial condition.

In addition, our products may be counterfeited in the market, such as through unauthorised imitation, replication of our designs, infringement of trademarks or mislabelling by third parties, which may affect the market recognition and market perception of our brand. Although we monitor any unauthorized use of our registered designs and trademarks, counterfeiting or imitation of our products to ensure that our intellectual property rights are protected, we cannot assure you that counterfeiting and imitation would not occur, or if it does occur, that we would be able to detect and address the problem effectively or in a timely manner, if at all. A significant presence of counterfeit products in the market could have a negative impact on the value and image of our brands, lead to loss of customer confidence in our brands and materially and adversely affect our business operations and financial condition.

Promoting and defending our brand and market share also depend, in part, on controlling the distribution of our products through our sales channels. If we fail to successfully promote our brand or to protect and enhance our brand's identity or fail to protect our brand and brand position, or if we fail to properly supervise the distribution or use of our products by our employees and independent contractors, or if such personnel fail to comply with our policies, the market recognition of our brand may deteriorate, we may not be able to sell our products at acceptable prices and/or volumes, and, as a result, our business operations and financial condition may be adversely affected.

9.1.7 Our success depends on our ability to maintain and expand our omni-channel network

We adopted an omni-channel distribution strategy to market and distribute our products through various offline and online channels such as the CUCKOO Sales Team and the CUCKOO+ Service Group, retail outlets, third party retailers (see Section 7.5.5.4 of this Prospectus for further details), e-Brandstores, e-commerce platforms, and e-Brandshops in Malaysia and Singapore. In Brunei, we have entered into a sub-distributorship agreement with CUCKOO Brunei for the sale and distribution of our products.

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The expansion of our sales network may not lead to proportionate expansion of our sales revenue. To maintain and increase our market share, we actively evaluate the operational performance of our offline and online omni-channel network, and based on such evaluation, we may add or remove retail outlets, enter new sales arrangements with our third party retailers and business partners in future. We may not be successful in any of these respects. Our ability to maintain and expand our offline and online sales channels depend on several factors, including among others, our ability to maintain relationships with the third party retailers and major e-commerce platforms on terms that are commercially acceptable to us and our ability to respond to changes in their needs. If we are unable to effectively maintain or expand our sales network, our business operations and financial conditions may be materially and adversely affected.

In Singapore, we offer our products to end customers through a variety of platforms, such as department stores, home appliance retail stores and online e-commerce platforms. Most of these offline third party and online platforms may market competing products or increase the cost for us to participate in sales and marketing related activities. If we are required to lower prices or accept conditions that are not favourable to us, it may affect the sales performance of our products, or we may have to accept greater credit and other risks which could negatively affect our business operations and financial condition. If the conditions imposed by our third party retailers and the online platforms we partner with are commercially unacceptable or we fail to maintain our relationships with them, the loss or termination of our contracts with them, or a substantial decline in volume of sales to, any one or more of them, could affect our ability to bring our products to market and therefore adversely affect our business operations and financial condition.

In addition, there can be no assurance that we can effectively manage overlap or potential competition among our offline and online channels. Adverse competition among our sales channels may result in cannibalisation of sales, which may then have a material and adverse effect on our business operations and financial condition.

9.1.8 We are dependent on our Key Senior Management for our continued success and growth of our business

We are highly dependent on Key Senior Management for setting our strategic business direction and managing our business. We are led by our CEO, Hoe Kian Choon, who has over 17 years of experience in the rental industry for home appliances and household goods. He is supported by our other experienced Key Senior Management team based in Malaysia who have 18 to 24 years of experience in their respective areas of expertise.

We currently do not have any non-compete agreements with Key Senior Management, or other key personnel, and have not obtained any key man insurance with respect to such individuals. Our ability to achieve continued success and face future business challenges depends on the continued service of our experienced Key Senior Management and on our ability to attract, recruit, and retain experienced, talented, and skilled professionals. Due to the current limited pool of skilled personnel, competition for senior management, commercial and finance professionals in our industry is intense. In the event of the loss of services of our Key Senior Management or other key personnel or our inability to recruit or train a sufficient number of experienced personnel or our inability to manage the attrition levels of such employees may have an adverse effect on our business operations and financial condition.

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9.1.9 Our operations may be restricted by current and future debt covenants and conditions and our failure to comply could result in acceleration of debt repayment

Under the terms of our principal bank loans and under any debt financing arrangement that we may enter into in the future, we are, and may in the future be, subject to covenants that could, among other things, restrict the business and operations of our Group and/or one or more of our subsidiaries. If we breach any of these covenants, our lenders will be entitled to accelerate our debt obligations. Any default under our debt obligations could result in us having to repay these debts prior to maturity as well as limit our ability to obtain additional financing, which in turn may have a material adverse effect on our cash flow and liquidity. In addition, our loan agreements with certain banks may contain cross-default clauses which state that if we breach the provisions of another loan agreement, we will also be in breach of the first loan agreement. If any cross-default occurs, such banks are entitled under these agreements to accelerate the repayment of all or part of the relevant loans and to recover against the security for such indebtedness.

Furthermore, our loan repayment plan may be accelerated if our lenders conclude that we are at risk of not being able to repay our indebtedness. If our loan repayment is accelerated or if we default on our repayments, it may be difficult for us to refinance our debt or obtain additional financing. Having significant leverage could have important consequences for our business operations and financial condition, such as making it more difficult for us to satisfy our obligations under our financing arrangements, requiring us to dedicate a substantial portion of our cash flow from operations to payments of our debt, or negatively impacting our creditworthiness, which limits our ability to borrow additional funds on commercially acceptable terms.

9.1.10 We are subject to availability of labour for our sales and maintenance operations

Our sales and maintenance operations require a supply of talent to continue growing our network of sales and service personnel. As such, our continuing ability to identify, hire, attract, train, develop and retain qualified personnel who play key roles in our omni-channel network, such as the CUCKOO Sales Team, the WonderLab Sales Team and CUCKOO+ Service Group, who are our frontline customer-facing sales and service personnel, is crucial for the growth of our business.

Personnel departures are unpredictable and may disrupt the implementation of strategic plans and business processes, especially if there is a breakdown in the knowledge transfer process. Intense competition for talent requires us to offer competitive compensation, which is one of our key expenses. Accordingly, we aim to attract and retain personnel in the aforementioned key groups in our omni-channel network through attractive remuneration plans and incentives.

As at the LPD, we have not faced any material issues with attracting or retaining labour which had materially and adversely affected our business operations and financial condition. Nevertheless, there can be no assurance that our commission structure or the various incentives we offer will continue to successfully attract or retain sales and service personnel or increase their productivity. Our failure to do so could materially and adversely affect our business operations and financial condition.

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9.1.11 We may not be able to successfully implement our business strategies and future plans, and manage our growth

Our ability to implement our business strategies (as outlined in Section 7.4 of this Prospectus) is subject to various risks, such as our ability to grow our market share, expand our omni-channel distribution network, and improve our operational efficiency and capability to serve a larger market. We also need to continuously enhance and upgrade our infrastructure and technology, improve control over our operational, financial and management aspects, strengthen our supplier and omni-channel network management, refine our reporting systems and procedures, and expand, train and manage our growing employee base. All these efforts will require significant managerial, financial and human resources.

Our efforts to improve operational efficiency may not be properly implemented or may fail to achieve desired results. There can be no assurance that we will be able to effectively manage our growth or enhance our systems to adequately support our expanding operations or maintain good relationships with suppliers, third party retailers, employees or customers.

We believe that our future growth depends not only on continuing to reach our current core demographic, but also continuing to penetrate and broaden our customer and retailer bases, including by increasing the number of our retail outlets, entering partnerships with department stores and home appliance retail stores to sell our products on their platforms, enhancing our systems to adequately support our growth and maintaining good relationships with our suppliers, third party retailers, employees and customers. We have in the past expanded our product offerings into new product categories through business partnerships and may continue to do so in the future. Such initiatives may require our management to develop expertise in new areas, manage new business relationships and attract new types of customers. Furthermore, such initiatives may require significant attention from our management, and the diversion of our management's attention and resources may adversely affect our ability to manage our business operations and financial condition. Additionally, these business partnerships may incur costs and expose us to compliance risks related to the new products being offered.

We have faced, and may continue to face, challenges such as competition between other market players, pricing, distribution, hiring, legal and regulatory issues, as well as difficulties in predicting customer demographics and preferences in new and existing markets in which we operate.

9.1.12 Our financial condition and future growth may be affected by foreign currency exchange rate fluctuations

We purchase CUCKOO-branded products in USD and generally sell these products within Malaysia in our functional currency, RM. For the Financial Years Under Review, 98.9%, 98.7%, and 98.6% of our revenue, respectively, were transacted in RM, and 91.0%, 77.7%, and 73.8% of our purchases, respectively, were transacted in USD. Any unfavourable movement in exchange rates between RM and USD may therefore have a negative impact on our financial performance.

While we will estimate potential foreign exchange rate fluctuations and factor in those estimates when pricing our rental plans, given that our rental plans typically have long contract terms with predetermined monthly repayment sums, there is no assurance that our estimates will be accurate. In the event that we do not accurately price our rental plans to take into account unfavourable movements in exchange rates, we will not be able to effectively pass on to our customer any increase in purchase cost arising from such unfavourable movements. See Section 12.2.2(iv) of this Prospectus for further details on our foreign currency exchange fluctuations.

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Separately, as at the LPD, save for our swap arrangement with Bank of China (Malaysia) Berhad as described in Section 12.2.2(iv) of this Prospectus, we do not have any hedging policies. Even if we were to implement hedging policies in the future, there may be limited hedging instruments we can use to reduce our exposure to exchange rate fluctuation, and the hedging instrument we use to reduce our foreign exchange risk exposure may not be effective. Also, the cost of such foreign exchange rate hedging instruments may fluctuate significantly over time and may outweigh the potential benefit from the reduced currency volatility.

9.1.13 We are subject to transfer pricing adjustments that may affect our profitability

Our purchases from CUCKOO Holdings Group are regarded as intra-group transactions from the South Korean and Malaysian transfer pricing perspective and is likely to be scrutinised by tax authorities in both South Korea and Malaysia, as to whether such intra-group transactions have been conducted on an arm's length basis. In this respect, our Company, CKH and CUCKOO Electronics have agreed to make the relevant transfer pricing adjustments with reasonable efforts and in good faith, to comply with the arm's length principle.

The adopted transfer pricing policy is based on the transactional net margin method where our operating profit margin will be adjusted with reference to the range of operating profit margins of selected comparable companies in Malaysia to comply with the arm's length principle. A transfer pricing adjustment could, among others, increase or reduce our profitability and we may potentially incur tax liability. For the FYE2021 and FYE2022, we incurred RM74.3 million and RM9.2 million in transfer pricing adjustments respectively, whilst no transfer pricing adjustments were incurred for the FYE2023.

Based on the adopted transfer pricing policy, analysis will be carried out on a continuous basis to determine the range of operating profit margins achieved by selected comparable companies in Malaysia, and our operating profit margin will then be benchmarked against such range of operating profit margins on a year-on-year basis. If our operating profit margins fall outside such range of operating profit margins, then our operating profit will be adjusted to fall within the range of operating profit margins of selected comparable companies in Malaysia, and vice versa. See also Section 12.2.2(iii) of this Prospectus for details on our transfer pricing arrangements.

9.1.14 Failure to retain our existing customers and attract new customers in a cost-effective manner may affect our sales

Our success depends, in part, on our ability to cost-effectively attract customers to purchase our products and services, retain our existing customers and encourage these customers to continue utilizing our products and services.

We have made, and we expect that we will continue to make, significant investments to attract new customers, including through corporate partnerships, brand ambassadors, traditional, digital and social media and engaging in sponsorship initiatives. Marketing campaigns can be expensive and may not result in the cost-effective acquisition of customers. For the FYE2021, FYE2022 and FYE2023, our marketing and advertising expenses were RM25.6 million, RM33.7 million, and RM34.1 million, respectively, representing approximately 2.2%, 3.2%, and 3.1% of our total revenue, respectively. We expect our marketing expenses to increase in the future as we seek to continue to increase awareness of our brands and our products. However, there is no assurance that our advertising and marketing efforts will result in increased sales of our products. If any of our advertising campaigns prove less successful than anticipated in attracting customers, we may not be able to recover our advertising spend and our net sales may fail to meet market expectations, either of which could have an adverse effect on our business operations and financial condition.

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Further, our ability to attract new customers depends on the effectiveness of our omni-channel strategy and network of personnel in the CUCKOO Sales Team, WonderLab Sales Team and the CUCKOO+ Service Group (see Section 9.1.7 and Section 9.1.10 of this Prospectus for further details on our reliance on our omni-channel network and on our reliance on labour, respectively).

9.1.15 We may be subject to inventory risks associated with obsolescence or inventory accumulation arising from competing products and prolong holding periods

We are exposed to inventory risks due to a variety of factors beyond our control, including changing consumption trends and customer preferences, launches of competing products, and our supply of Cuckoo-branded products from CUCKOO Holdings Group and our supply of Cuckoo Co-Created products from our business partners. See Sections 9.1.1 and 9.1.2 of this Prospectus for further details. Maintaining an optimal level of inventory is critical to the success of our business. While we prepare monthly stock forecasts to manage our inventory levels, we might be unable accurately predict consumer preferences and demand and maintain adequate levels of inventory at all times. An unexpected decrease in the market demand for the products we sell could lead to excessive inventory, and we may be forced to offer discounts or conduct promotional activities to dispose of slow-moving inventory, sometimes at prices below cost. For example, in June 2019, we had excessive inventory of our Inductwo and Inductrio hybrid cooktops due to over-estimations of market demand made in our sales forecasts, and had to launch customer promotions to clear our inventory. On the other hand, inventory under-stock may cause us to lose sales.

For the FYE2021, FYE2022, and FYE2023, our inventory turnover days were 49 days, 67 days, and 62 days, respectively. We manage our inventories and make adjustments based on demand for our products. Unexpected increases or decreases in orders could have an adverse effect on our business operations and financial condition.

Further, frequent new product introductions in the home appliances industry can result in a decline in the average selling prices of our products and the obsolescence of our existing inventory. Generally, we periodically assess inventory impairment and typically recognise inventory write-down when their cost is lower than their net realisable value. However, due to the volatile nature of the value of some of our inventory, there can be no assurance that actual inventory loss will not exceed or fall below our provisions for inventory loss. Differences in the estimation of expected future values and any inventory or asset related write-downs or provision could affect our business operations and financial condition. In addition, the sale of excess inventory at discounted prices or in less preferred retail channels could impair our brand image and harm our gross margin. For health and safety reasons, we may also be required to dispose of expired WonderLab and WonderDewi skincare and nutritional products sold.

Although we had recorded a positive operating cash flow for the Financial Years Under Review, there can be no assurance that stock obsolescence and accumulation would not adversely affect our business operations and future financial condition.

9.1.16 We may not be able to adequately protect our intellectual property rights, and may be required to defend against charges of infringement of intellectual property or other proprietary rights of third parties

Our success with our products and services depends, in part, on our ability to protect our current and future technologies, products and services, and to defend our intellectual property rights, including any patent, trade secret, copyright and trademark rights owned by CUCKOO Holdings Group in respect of our CUCKOO-branded products, or any such rights jointly owned with our business partners in respect of our CUCKOO Co-Created products.

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Attempts to protect the proprietary technology of our CUCKOO-branded products in various jurisdictions can be costly and there is no assurance that CUCKOO Holdings Group will undertake such measures. Competitors may compete with our products and technologies, in jurisdictions where we, CUCKOO Holdings Group or our business partners, as the case may be, have not obtained intellectual property rights.

As at the LPD, we have not been required to assert our intellectual property rights or defend against charges of infringement of intellectual property or other proprietary rights of third parties. However, if we, CUCKOO Holdings Group, or our business partners fail to adequately protect the intellectual property rights in relation to our product offerings, our competitors may manufacture and market similar products and services, which may dilute our product differentiation and adversely affect our business operations and financial condition.

If our CUCKOO-branded products, CUCKOO Co-Created products or manufacturing processes are found to have infringed upon third-party rights, we, whether jointly with CUCKOO Holdings Group or our business partners, or otherwise, may be subject to significant liabilities and be required to seek licences from third parties, pay ongoing royalties or redesign certain products, or become subject to injunctions prohibiting the manufacture and sale of certain products or the use of intellectual property in certain jurisdictions. The defence of infringement suits and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel.

9.1.17 We may not be able to find suitable locations for retail outlets on commercially acceptable terms, or at all

Our performance depends on the location of our retail outlets. Our Sales Managers typically propose locations for CUCKOO Brandstores and CUCKOO Brandkiosks, which we then evaluate based on factors such as footfall, accessibility, the grade of the shopping malls and rental rates. The supply of prime locations is scarce and securing these locations may be challenging. Rental costs, especially in the prime areas within Malaysia and Singapore may raise beyond what we may deem as commercially justifiable. If we struggle to identify suitable locations to lease, our business operations and financial condition may be impaired.

Tech-savvy millennials have become a significant consumption force, and if they prefer to view products physically in stores but make their purchases online, this may reduce sales made through offline sales channels. As such, there can be no assurance that having a greater retail presence, at prime locations or otherwise, may improve our business operations or financial condition.

9.1.18 We may not be able to detect and prevent fraud or other misconduct committed by our business partners, employees, independent contractors or other third parties

We may be exposed to fraud or other misconduct committed by our business partners, employees, independent contractors, or other third parties that could affect our reputation and subject us to litigation, financial losses and sanctions imposed by governmental authorities. Such misconduct could include improperly using or disclosing sensitive information, engaging in improper activities such as offering bribes to, or receiving bribes from, counterparties in return for any type of benefit or gain, or engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities.

As at the LPD, we have over 6,000 personnel in the CUCKOO Sales Team and WonderLab Sales Team across Malaysia and Singapore. There can be no assurance that such personnel will comply with the terms and conditions governing their employment or service with us, or that we may be able to identify all instances of misconduct.

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In the past, we discovered that a Sales Representative had engaged in irregular sales practices, involving fraudulent manipulation and duplication of identity card numbers, to artificially inflate sales numbers and earn more commission and other benefits. We have since terminated the Sales Representative's contract. Further, we have discovered that some of our former Sales Representatives have published misleading marketing and promotional offers, and incorrect or outdated information relating to our business on their social media accounts, which we are unable to remove.

We have since tightened our internal control procedures to monitor our operations and ensure overall compliance, which include enhancement of our standard operating procedures relating to sales recognition and monitoring of our sales personnel. Further, we also maintain records of our sales personnel and their respective social media websites to conduct periodical checks on the content of their promotional websites to ensure that they are up-to-date and in compliance with our marketing guidelines, there is no assurance that such internal control procedures would be undertaken effectively to identify all instances of non-compliance or suspicious transactions in a timely manner, if at all, due to changes in business process or relevant personnel.

There is no assurance that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may result in negative publicity for us, which in turn may have a material and adverse impact on our business operations and financial condition.

9.1.19 If our Sales Representatives, Service Specialists and Wonder Stars are deemed as our employees, there may be adverse business, financial, tax, legal and other consequences

Under our present business model, our Sales Representatives, and certain of our Service Specialists and Wonder Stars are engaged under contract for service as independent contractors. In the past, we have faced legal claims from some of these independent contractors who have sought to claim certain benefits and/or compensation by alleging employee status, which are still ongoing as at the LPD. These claims in aggregate are not material to our Group. The tests governing whether a person is engaged as an independent contractor or an employee will be based on a finding of fact as to the actual nature of their relationship with us. Further, in an enforcement action initiated by SOCSO against us alleging that we were required to register with SOCSO one of our independent contractors, which SOCSO alleged was an employee, the High Court in June 2023 had affirmed that the said independent contractor was not our employee. Therefore, we would not be required to pay SOCSO contributions for such independent contractor.

Nevertheless, there can be no assurance that there will not be any changes to laws or regulations governing the definition or classification of independent contractors, or judicial decisions regarding independent contractor classification which could require the reclassification of our independent contractors as employees. If so, we may be required to incur significant additional expenses, potentially including expenses associated with the application and compliance with employment laws (including minimum wage, overtime, and meal and rest period requirements), employee benefits (including requirements with respect to statutory contribution and compulsory insurance), taxes, and penalties.

9.1.20 Our insurance coverage may be inadequate

We maintain insurance policies to cover a variety of risks that are relevant to our business needs and operations, and also maintain third-party insurance policies covering certain potential risks and liabilities including, burglary, fire, product liability, fidelity guarantee, marine cargo, flooding, and property liability. We have in the past made claims under our insurance policies, to cover losses we suffered.

9. RISK FACTORS

For example, 2,038 units of water purifiers and air purifiers that we stored at a warehouse rented from a third party were damaged by a flood in the FYE2021. While we managed to fulfil customer orders with stock from other warehouses and received a payout of approximately RM1.3 million from our insurer in the FYE2023, there can be no assurance that we would have sufficient stock to do so should similar events arise in future. There may also be circumstances in which we will not be covered or compensated, in part or at all, for specific losses, damages and liabilities. Any risk that is not adequately covered by insurance may have an adverse effect on our business operations and financial condition.

In addition, all our insurance policies are subject to periodic renewal, which may involve changes in the insurance premium, terms and policy limits. If there is a significant increase in our insurance premium, we may incur higher costs to renew our insurance policies. Further, there can be no assurance that such insurance policies will continue to be available to us based on acceptable terms and costs.

9.1.21 We rely on operating system providers to support some of our products and technologies, including our CUCKOO+ mobile application and our AI Chatbot

Our CUCKOO+ mobile application and our AI Chatbot, are dependent on the effective operation of certain mobile operating systems, networks and standards that are run by operating system providers and app stores (collectively, "**Providers**").

The Providers that control these systems and networks frequently introduce new technology, and from time to time, they may introduce new systems and networks or modify existing ones. Further, we are also subject to the policies, practices, guidelines, certifications and terms of service of Providers' platforms on which we publish our CUCKOO+ mobile application and content. A Provider may also change its fee structure, add fees associated with access to and use of its platform or app store, limit the use of personal information and other data for advertising purposes or restrict how users can share information on their platform or across other platforms. If we or our customers were to violate a Provider's terms of service, guidelines, certifications or policies or if a Provider believes that we or our customers have violated, its terms of service, guidelines, certifications or policies, then that Provider could limit or discontinue our or our customers' access to its platform.

If any Providers, stop providing us with access to their platform or infrastructure, fail to provide reliable access, cease operations, modify or introduce new systems or otherwise terminate services, the delay caused by qualifying and switching to other operating systems could be time consuming and costly and could materially and adversely affect our business operations and financial condition.

9.1.22 We may be subject to legal proceedings, regulatory disputes and governmental inquiries

We have in the past, and may from time to time, be subject to claims, lawsuits, government investigations and other proceedings. While these were not material, there is no assurance that future claims will not adversely affect our business operations and financial condition. See Section 9.1.19 of this Prospectus for further details of an enforcement action initiated by SOCSO against us.

Litigation and regulatory proceedings that we could face may be protracted and expensive and the results are difficult to predict. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages and include claims for injunctive relief. Additionally, our brand name and reputation may be affected regardless of the outcome of such proceedings, and our litigation costs could be significant.

Adverse outcomes with respect to litigation or any of these legal proceedings may result in significant settlement costs or judgments, penalties and fines or require us to modify our products or technologies, make products unavailable or require us to stop offering certain features, all of which could negatively affect our business operations and financial condition.

9. RISK FACTORS

9.2 RISKS RELATING TO THE INDUSTRIES IN WHICH WE OPERATE

9.2.1 We face intense competition within the home appliances and household goods industry

We operate in the home appliances and household goods industry where we face competition from many foreign and local players. Competition in the home appliances and household goods industry is based on several factors, including product pricing, product features and design, quality, performance, innovation, reputation, energy efficiency, distribution and financial incentives, such as salesforce incentives and sales rebates.

Our competitors typically offer rental plans and outright purchases for their home appliances and household goods and would also typically offer periodic and ad-hoc after-sales doorstep services. We compete with our competitors in a variety of aspects including market experience, brand recognition, product variety, cost efficiencies, and financial, sales and marketing and technological resources. Our competitors may have substantially greater financial and other resources, including personnel and research and development, and greater overall market share than us, as well as established retailer relationships. Some of our competitors may also be willing to reduce prices and accept lower profit margins to compete with us. As a result of this competition, we could lose market share and sales, or be forced to reduce our prices to remain competitive.

In addition, further increase in market concentration of the household appliances and household goods industry may result in stronger competition for us and a decline in our relative market position, and any price competition from time to time may result in reduced average selling prices and profit margins, which could adversely affect our business operations and financial condition.

To maintain our market share, we may then have to launch similar promotions and other customer activities, particularly during seasonal festivities such as Hari Raya and Chinese New Year, which could adversely impact our profit margin.

There can be no assurance that we will be able to compete successfully with our competitors, and failure to do so would have an adverse effect on our business operations and financial condition.

9.2.2 Our business and future growth prospects rely on consumer demand for our products or rental plans

We operate in an industry that is subject to rapid and unpredictable changes in consumer demand and trends. Our success depends on our ability to identify and respond to constantly shifting consumer demand and trends, develop new and appealing products or rental plans on a timely basis, and achieve acceptance of such new products by customers.

In particular, we depend on, to a significant extent, continued consumer demand for home appliances, household goods, home care services and skincare products. We cannot provide any assurance that consumers will continue to demand such products or if we are able to anticipate and respond appropriately to changing consumer trends and preferences. If consumer preferences shift away from our products, our brands, business operations and financial condition may be materially and adversely affected.

9. RISK FACTORS

Moreover, the choices and preferences of consumers may be influenced by new products that appear in the market. Accordingly, we have been continuously improving our brand awareness and developing rental and subscription plans and offering our products together with other complementary products, as well as developing, launching and promoting new products to maintain our competitiveness. To support our product upgrade and expansion plans, we also have actively recruited able employees and explored better financial, technical or marketing tools. All these tasks involve risks, and require substantial planning, expenditures and effective execution. We rely on big data analytics and market surveys to track our consumer brand awareness and anticipate changes and trends in consumer demand, and adjust our marketing strategies and product mix accordingly. If we misjudge consumer demand, we may incur unrecoverable development, production and marketing costs which will adversely affect our business operations and financial condition.

9.2.3 Our business is subject to governmental regulations and approvals, and we are subject to changes in laws, regulations or government policy in the markets we operate

To operate our businesses, we are required to obtain and comply with various permits, licences, certificates, consents and other approvals from governmental authorities. Failure to obtain governmental approvals could have an adverse effect on our operations. The relevant laws and regulations governing our Group in our core markets which are material to our operations are summarised in Appendix I of this Prospectus, and details of the major approvals, licences, permits and registrations obtained by our Group for our business operations as at the LPD are set out in Appendix II of this Prospectus.

There can be no assurance that we will be able to fulfil the conditions necessary to obtain, maintain or renew the required governmental approvals or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to our operations. Additionally, there may be delays on the part of the relevant administrative bodies in reviewing our applications and granting approvals.

For example, we are required to obtain, maintain and renew business premise licenses in respect of the operation of our Retail Outlets, distribution centres and distribution hub. In addition, we are required to ensure that the properties occupied by our Group comply with relevant laws and regulations. Failure to obtain the necessary licences, permits and approvals in a timely manner may affect our ability to operate at our retail outlets, distribution centres and distribution hub and expose us to fines and other penalties. Further, in the event of failure to obtain the relevant permits and approvals, we may be required to incur costs to rectify the non-compliances, such as relocation costs.

As at the LPD, we are not fully compliant with certain applicable laws, regulations and rules and may be subject to inspections, examinations, inquiries and audits by governmental authorities while we are taking measures to rectify such non-compliances. See Section 7.17 of this Prospectus for details on the relevant non-compliances and rectification actions taken. While we have not, save as disclosed in Section 7.17 of this Prospectus, incurred penalties or faced any enforcement action arising from these non-compliances as at the LPD, there is no assurance that we will not be subject to further enforcement actions and penalties in the future, which may be material.

Many of our products are also subject to regulations relating to the manufacture, import and sale of such products. Any delays in obtaining or renewing the necessary approvals may cause interruptions in respect of the import and sale of these products, and any breach of the relevant regulations or conditions related to the relevant approvals may result in fines or other penalties.

9. RISK FACTORS

Changes in laws, regulations or government policy (including in relation to taxation) could also adversely affect our business operations and financial condition. For example, from 1 March 2024, the rate of sales and service tax on most taxable services in Malaysia was increased from 6% to 8%. Any such changes may result in an increase in competitive intensity, increase in the costs of operations, reductions in prices or changes in price structures, which may result in an adverse effect on our business operations and financial condition.

9.2.4 A cybersecurity breach or failure of one or more key information technology ("IT") systems could have a material adverse effect on our business or reputation

We rely on our own IT systems and infrastructure, as well as those of third parties, to support our business and performance. We use a variety of in-house technological solutions to track and analyse data to manage our inventory and sales, prevent overstocking, including a platform on which our sales personnel can track purchases made by their respective customers (see Section 7.11 of this Prospectus for further details on our IT systems). Our website, mobile application and other technological solutions rely on a variety of other technological tools, including online ordering systems, electronic billing and third-party cloud solutions. We also use third party software for certain of our IT systems pursuant to contracts, which we renew on an annual basis.

Our and our third-party service providers' data, IT systems and infrastructure may be vulnerable to various potential risks, including but not limited to incidents originating from legacy or non-integrated systems, or both, as well as fires, natural disasters, power failure, telecommunication failure, terrorist attacks, break-ins, data corruption and other similar events. Other risks and challenges could arise as we upgrade, modernise and standardise our IT systems.

We may also face risks because of human error or malfeasance or failure, disruption, cyber incidents or other security breaches of third-party systems or infrastructure. As techniques used by cyber criminals change frequently, a failure, disruption, cyber incident or other security breach may go undetected for a long period of time. A failure, disruption, cyber incident or other security breach of our IT systems or infrastructure, or those of our third-party service providers, could result in the theft, transfer, unauthorised access to, disclosure, modification, misuse, loss, or destruction of our data or that of our employees or other third parties, including sensitive or confidential data, personal information and intellectual property. Furthermore, our ability to protect and monitor the practices of our third-party service providers is more limited than our ability to protect and monitor our own IT systems and infrastructure. Efforts and investments to monitor our IT systems and infrastructure are costly, and as cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Further, there can be no assurance that our efforts will prevent a failure, disruption, cyber incident or other security breach of our or our third-party service providers' IT systems or infrastructure, or that we will detect or respond timely if there is such a failure, disruption, cyber incident or other security breach. Any such failure, disruption, cyber incident or other security breach could adversely affect our business, including our ability to expand our business, cause damage to our reputation, result in increased costs to address internal data, security, and personnel issues, and result in violations of applicable privacy laws and other laws and external financial obligations such as governmental fines, penalties, or regulatory proceedings. We may also face remediation efforts (liabilities for stolen assets or information, or repairs of system damage, among others), increased cybersecurity protection costs, lost revenues arising from the unauthorised use of proprietary information, litigation and legal risks, increased insurance premiums, reputational damage affecting our customers' and investors' confidence, as well as damage to our competitiveness, Share price and long-term shareholder value. Any failure by us to adequately protect our IT systems and the confidential data which we hold could have a material adverse effect on our business operations and financial condition.

9. RISK FACTORS

9.2.5 We face risks related to the unauthorised disclosure of confidential information and compliance with privacy laws

We store highly confidential information on our IT systems, including personal data, financial information, and other types of information related to our business, products and customers, including but not limited to, through our website and CUCKOO+ mobile application (see Section 7.11 of this Prospectus for further details on our IT systems). Through the CUCKOO Sales Team, the WonderLab Sales Team and CUCKOO+ Service Group, we also collect and process a considerable volume of information which may be considered, in certain jurisdictions, to be sensitive personal data and is subject to legal regulations. As such, we must ensure that any processing, collection, use, storage, dissemination, transfer and disposal of data for which we are responsible, complies with relevant data protection and privacy laws in each jurisdiction, including the Personal Data Protection Act 2010 in Malaysia and the Personal Data Protection Act 2012 in Singapore.

We rely on commercially available systems, software, tools and monitoring to provide secure processing, transmission, encryption and storage of confidential customer information, such as credit card details and other personal information. Our facilities and systems, either of our e-commerce platform, as well as those of our third-party service providers, such as third-party payment gateways including Cybersource and Visa, may be vulnerable. See Section 9.2.4 of this Prospectus for further details on potential risks related to failures or breaches of our IT systems. If our servers or the servers of the third parties on which our data is stored are the subject of a physical or electronic break-in or other cyber risks, confidential information could be stolen, rendered unavailable, devalued or destroyed. Any security breach involving the misappropriation, loss or other unauthorised disclosure or use of confidential information of our suppliers, business partners or others, whether by us or a third party, could subject us to civil and criminal penalties, have a negative impact on our reputation or expose us to liability. Further, the perception by our customers that we failed to comply with privacy laws or properly address privacy concerns could materially harm our business and standing with our customers.

9.2.6 We are subject to general economic conditions and consumer spending in Malaysia, as well as inflationary pressures and rising costs

The majority of our business is derived from our operations in Malaysia, which accounted for 98.9%, 98.7%, and 98.6% of our revenue in FYE2021, FYE2022, and FYE2023, respectively. As such, our business operations and financial condition depends on Malaysian consumer spending and the general state of the Malaysian economy, and may be adversely affected by overall political, economic and social conditions and developments in Malaysia, some of which are beyond our control. Such developments include any changes in government regulations and policies (such as price controls, interest rate adjustments, currency trading band adjustments and exchange rate controls), political leadership, taxation law and interest rates, as well as any uncertainty in the implementation of economic or legal reform, changes in labour conditions (including changes in regulations relating to minimum wage – see Section 12.2.2 (ii) of this Prospectus for further information) and nationalisation of assets, which may cause decreased economic activity in Malaysia.

Inflationary pressures related to domestic and global economic conditions or supply chain issues may also affect our business operations and financial condition. Uncertainty in the global markets due to geopolitical tensions and conflicts may result in high inflation, rising interest rates and high foreign exchange rate volatility, and disrupt global supply chains. We are exposed to the risk of cost increases due to rising inflation and interest rates in the markets in which we operate, and may cause us to experience lower sales volumes because of increases in the prices of our products, including but not limited to, increases to cover inflation and higher packaging and material costs, operation costs, and transportation costs.

9. RISK FACTORS

Any adverse developments in one or more of the abovementioned conditions may cause disruptions to our business and operations or decline in demand for our products and services, which may consequently cause a decline in our revenue. Additionally, there is no assurance that political disturbances will not occur in Malaysia or that such disturbances will not directly or indirectly, materially and adversely affect our business operations and financial condition.

9.2.7 Product recalls may adversely affect our business operations and financial condition

Allegations of defective products or adverse effects on product safety or product failures may require us to recall a product. We may also be required by the applicable laws and regulations in the countries in which we operate to adopt new or amend existing return and/or exchange policies from time to time. If our products do not meet product safety standards and/or our customers' expectations, we may be required to carry out product recalls to protect our brand name and reputation. Costs incurred in connection with product recalls may have an adverse effect on our business operations and financial condition.

9.3 RISKS RELATING TO OUR SHARES

9.3.1 There has been no prior market for our Shares

Prior to our Listing, there has been no public market for our Shares. Hence, there is a risk that upon Listing, an active market for our Shares may not develop, or if developed, whether such market can be sustained.

There can be no assurance that the Final Retail Price will correspond to the price at which our Shares will trade on the Main Market upon our Listing and that the market price of our Shares will not decline below our Final Retail Price. A number of factors could cause our Share price to fluctuate, including but not limited to announcements of developments relating to our business, fluctuations in our business operations and financial condition, general industry conditions, and the performance of the global economy. These could also materially and adversely affect our ability to raise capital at a time and at a Share price we deem appropriate.

9.3.2 Our ability to pay dividends is dependent on our financial performance

Our ability to declare dividends to our shareholders will depend on, among others, our future earnings, capital requirements, business operations and financial condition, exchange controls, cashflows, and other considerations as our Board may consider relevant from time to time.

These factors are also dependent on market demand, and our business operations and financial condition, capital requirements and ability to implement our future plans. We may also be required to obtain the approval of certain of our financiers in order to declare dividends. As such, there is no assurance that we will be able to pay dividends to our shareholders.

Our Board intends to declare a dividend for the FYE2025 after our Listing. However, the quantum has yet to be determined and is subject to factors stated above. In addition, our Board may, at any time and for any reason it deems appropriate, decide not to pay any dividend for the FYE2025 as our future dividends are at our Board's discretion. You should note that any statement on the payment of dividends in this Prospectus merely describes our Company's present intention. This shall neither constitute a legally binding obligation or statement on our Company nor a guarantee by our Board. If we do not pay dividends, or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of any investment in our Shares may be reduced.

See Section 12.5 of this Prospectus for a description of our dividend policy.

9. RISK FACTORS

9.3.3 Our Share price and trading volume may be volatile

The trading price and volume of our Shares could be subject to fluctuations in response to various factors, some of which are not within our control and may be unrelated or disproportionate to our business operations and financial condition. These factors may include changes in analysts' recommendations or projections, economic and political conditions of our country as well as the growth potential of the home appliances and household goods industry.

In addition, the trading price and volume of our Shares is dependent on external factors such as the performance of the world exchanges and the inflow or outflow of foreign funds. These factors will contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares. There is no assurance that the price and trading of our Shares will not be subject to fluctuations.

9.3.4 Foreign Shareholders may not be able to participate in future rights offerings or certain other equity issues by us

If we offer, or cause to be offered, to our Shareholders rights to subscribe for additional Shares or any rights of any other nature, we will have the discretion as to the procedure to be followed in making such rights available to our foreign Shareholders or in restricting such rights for the benefit of such foreign Shareholders. In relation to any rights issue or preferential offering of Shares, we may, in our absolute discretion, elect not to extend an offer of our Shares under a rights issue to those foreign Shareholders whose addresses are outside Malaysia. Accordingly, such foreign Shareholders may be unable to participate in our rights offerings.

9.3.5 Future offerings of a substantial number of our Shares in the public market may result in dilution

Our shareholders may experience dilution in their shareholdings upon offer or sale of additional share capital or share capital-linked securities by our Company in future offerings. See Section 9.3.4 of this Prospectus. If additional funds are raised through our issuance of new share capital or share capital-linked securities other than on a pro rata basis to existing Shareholders, the percentage shareholdings of existing Shareholders may be reduced.

9.3.6 The interests of our Promoters may not be aligned with the interest of our shareholders

Immediately after the completion of our IPO, our Promoters, will own in aggregate, 73.0% of our enlarged number of shares upon Listing. As a result, our Promoters will be able to have effective control over the business direction and management of our Company including the election of directors, the timing and payment of dividends and influence the outcome of certain matters requiring the vote of our shareholders unless our Promoters are required to abstain from voting either by requirement of law and/or by the relevant guidelines or regulations. Therefore, there is a risk that the interests of our Promoters may not be aligned with those of our other shareholders.

9.3.7 Substantial sales of our Shares by our Substantial Shareholders and Key Senior Management could cause the market price of our Shares to decline

Upon the completion of our IPO and Listing, we will have 1,432,800,000 Shares in issue, of which at least 1,055,540,802 Shares, representing 74.5% of our enlarged number of Shares upon Listing, will be held by our Promoters, Key Senior Management and Substantial Shareholders. Our Shares sold in our Listing will be traded on the Main Market following our Listing.

It is possible that our Promoters, Key Senior Management and/or Substantial Shareholders may dispose of some or all of our Shares that they hold after the moratorium period, pursuant to their own investment objectives. If our Promoters, Key Senior Management and/or Substantial Shareholders sell, or are perceived as intending to sell, a substantial amount of our Shares, the market price for our Shares could be adversely affected.

9. RISK FACTORS

9.3.8 There may be a delay or failure of our Listing

Our Listing may be potentially delayed or aborted due to the occurrence of any one or more of the following events:

- (i) our Joint Underwriters exercising their rights pursuant to the Underwriting Agreement to discharge themselves from their obligations thereunder;
- (ii) if we are unable to meet the public shareholding spread requirements of Bursa Securities under which at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 1,000 public shareholders holding not less than 100 Shares each upon our admission to the Official List; and
- (iii) the revocation of the approvals from the relevant authorities prior to our Listing for whatever reason.

Where prior to the issuance and allotment or transfer of our IPO Shares:

- (i) the SC issues a stop order under Section 245(7)(a) of the CMSA, the applications shall be deemed to be withdrawn and cancelled and we or the Selling Shareholders shall repay all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC; or
- (ii) our Listing is aborted other than pursuant to a stop order by the SC, investors will not receive any IPO Shares, all monies paid in respect of all applications for our IPO Shares will be refunded free of interest.

Where subsequent to the issuance and allotment or transfer of our IPO Shares:

- (i) the SC issues a stop order under Section 245(7)(b) of the CMSA, the issue of our IPO Shares shall be deemed void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC; or
- (ii) our Listing is aborted other than pursuant to a stop order by the SC, a return of monies to our shareholders could only be achieved by way of a cancellation of share capital as provided under the Act and its related rules. Such cancellation can be implemented by the sanction of our shareholders by special resolution in a general meeting, and supported by either: (a) consent from our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstance; or (b) a solvency statement from our Directors.